

## **SECTION 6 TERMINATION PAY**

### **CONTENTS**

<b>REPORTABLE TERMINATION PAY .....</b>	<b>Page 2</b>
<b>TERMINATION PAY OPTIONS .....</b>	<b>Page 2</b>
<b>EXCESS EARNINGS .....</b>	<b>Page 3</b>
<b>BONUSES OR INCENTIVES .....</b>	<b>Page 4</b>
<b>TERMINATION PAY - IRREVOCABLE ELECTION FORM .....</b>	<b>Page 4</b>
<b>CALCULATION OF TERMINATION PAY CONTRIBUTIONS .....</b>	<b>Page 7</b>
<b>TERMINATION PAY CONTRIBUTION RATES .....</b>	<b>Page 8</b>
<b>TERMINATION PAY FORM INSTRUCTIONS.....</b>	<b>Page 9</b>
<b>TERMINATION PAY FORM - OPTION 1 .....</b>	<b>Page 11</b>
<b>TERMINATION PAY FORM - OPTION 2 .....</b>	<b>Page 12</b>
<b>REPORTING TERMINATION PAY CONTRIBUTIONS.....</b>	<b>Page 13</b>

## REPORTABLE TERMINATION PAY

Termination pay includes, any form of bona fide vacation leave, sick leave, severance pay, amounts provided under a window or early termination incentive plan, or other payments that are contingent upon the employee terminating employment and retiring. Termination pay does not include amounts that are not wages and amounts that are earned prior to termination under a non-qualified deferred compensation plan. If the employer's termination pay package includes options, or benefits other than cash payments, please contact the TRS prior to withholding or remitting contributions to the TRS.

Under Montana statute "Retirement" is defined as the status of a member who has terminated employment and applying for retirement benefits. If a TRS member is terminating employment for the sake of leaving the field of education and not applying for monthly retirement benefits or will be accepting a position with another TRS employer within the State of Montana, the lump sum payout is not considered termination pay and is not reportable to the TRS.

If you have employees that receive a payout at the end of each fiscal year, for accumulated sick leave or vacation pay, these earnings are **not** termination pay and are **not** reportable to the TRS until the year of termination and retirement.

## TERMINATION PAY OPTIONS

If a TRS member is terminating and retiring and their earned compensation includes any termination pay, they must select one of the three following options:

- Option 1**      Use the total termination pay amount in the calculation of the AFC. The TRS member and the employer shall pay contributions to the TRS as are determined by the TRS Board to adequately compensate the system for the additional retirement benefit. The contributions due the TRS must be made at the time the termination pay is received.
- Option 2**      The amount of compensation used in the calculation of AFC must be divided by the total number of years of creditable service to determine a yearly amount. The yearly amount of termination pay is then added to each of the three consecutive years' salary used in the calculation of the AFC. The TRS member and the employer shall pay contributions on the termination pay according to the rates provided for in §19-20-602(1) and §19-20-605(1), MCA.
- Option 3**      Exclude the termination pay from the AFC. Contributions are not required from the TRS member or their employer, and any contributions made under §19-20-602 and §19-20-605, MCA must be refunded.

## EXCESS EARNINGS

The earned compensation for each year used in calculating a member's AFC may not exceed the preceding year by more than 10%, except for increases that:

- (a) Result from collective bargaining agreements;
- (b) Have been granted by the employer to all other similarly situated employees. The TRS employer must certify the similarly situated group of TRS employees, the increase received by each employee, and the method for determining the increases;
- (c) Result from compensation received for summer employment. Summer employment may not exceed one-ninth of the academic year contract for each full month or prorated for each portion of a month employed during the summer, or 110% of the summer compensation the member was eligible to earn each month during the preceding summer;
- (d) Have resulted from a change of employer or;
- (e) Have resulted from re-employment for a period of not less than one year following a break in service.

The TRS member or the TRS employer must provide adequate documentation to permit the TRS Board to make an informed decision concerning an exemption to the 10% limitation. Adequate documentation includes, but is not limited to, employment contracts or official minutes of board meetings. Promotions or the assignment of additional duties will not be exempt from the 10% limitation.

It is the intent of the 10% limitation to provide equitable benefits to all TRS members based on their normal service and salary, and to limit the effect on the TRS of isolated salary increases received by selected individuals through promotions or one-time salary enhancements during their last years of employment.

Compensation in excess of the 10% limit may be included in the calculation of AFC as if the excess earnings were termination pay. If the member has excess earnings, an additional 'Termination Pay Form' must be obtained from the TRS office. The TRS member must complete Part I of the 'Termination Pay Form' and forward the properly completed form to your office. If the member elects to utilize the excess earnings under Option 1, the employer must complete Part III of the 'Termination Pay Form' and calculate the employee and employer contributions due the TRS on the excess earnings amount. The contributions, representing the earnings that resulted in the excess earnings amount as reported to the TRS, must be deducted from the employee and employer excess earnings contributions due the TRS. The employee contributions due the TRS on excess earnings must be paid by personal check to the TRS. The employee contributions may **not** be tax-deferred.

**Example:** A TRS member at age 49 with 28.00 years of service with \$2,000.00 in excess earnings, elects to use the excess earnings under Termination Pay Option 1. The employee and employer cost would be calculated as follows:

$$\frac{\$ 2,000.00}{\text{Termination Pay}} \times \frac{3.74 \%}{\text{Employee Rate}} \times \frac{28.00}{\text{Years of Service}} = \frac{\$ 2,094.40}{\text{Employee Cost}}$$

Employee Contributions Reported to the TRS on the excess earnings amount: \$ 143.00

Balance due the TRS on the Excess Earnings (Personal Payment) \$ 1,951.40

$$\frac{\$ 2,000.00}{\text{Termination Pay}} \times \frac{3.96 \%}{\text{Employer Rate}} \times \frac{28.00}{\text{Years of Service}} = \frac{\$ 2,217.60}{\text{Employer Cost}}$$

Employer Contributions Reported to the TRS on Excess Earnings Amount: \$ 149.40

Balance due the TRS on the Excess Earnings \$ 2,068.20

If the TRS member elects to utilize the excess earnings under Option 2, no additional contributions are due from the employee or employer.

## BONUSES AND INCENTIVES

If a contract contains any provision or clause providing any type of payment no matter the purpose, timing or amount, as a prelude to retirement, this payment is termination pay. This payment must be made payable at the time of termination and retirement and will be used in the calculation of AFC, if the member elects termination pay, Option 1 or 2.

### TERMINATION PAY – IRREVOCABLE ELECTION FORM

Members of the TRS have the option to have their contributions deducted from termination pay on a tax-deferred basis. In other words, the member contributions can be deducted from the termination pay amount and reported to the TRS before Federal and State income taxes are withheld. The termination pay will continue to be subject to Social Security withholding.

If a TRS member elects termination pay Option 1 or 2, the employee must pay the required employee contributions due the TRS and the employer must pay the required employer contributions due the TRS. In other words, the employee cannot pay both the employee and employer contributions due the TRS. (Ref: §19-20-716, MCA.)

In order to qualify for the tax-deferral of contributions, the 'Termination Pay – Irrevocable Election Form' must be executed by the TRS member and the TRS employer at least 90 days prior to the member's termination date. Please visit the TRS web site at <http://www.trs.mt.gov> for the 'Termination Pay – Irrevocable Election Form', and a complete copy of instructions. The 'Termination Pay – Irrevocable Election Form' must be signed by both the TRS member and the TRS employer at least 90 days prior to the member's termination. It is generally assumed that the last day of teaching will be the date of termination. If this assumption is not correct, please notify the TRS of the correct termination date to avoid any unnecessary delay in processing a member's benefit.

If the TRS employee has signed a "Termination Pay - Irrevocable Election Form" and elected termination pay Option 1 or 2, the gross amount of their termination pay will be subject to Social Security withholding, however Federal and Montana State income taxes will not be withheld from the employee contributions deducted from their termination pay and reported to the TRS. The employee may not change their termination pay option election if a valid "Termination Pay – Irrevocable Election Form" has been executed.

If the TRS employee has not signed a "Termination Pay - Irrevocable Election Form" or the 90-day requirement is not satisfied, and elected termination pay Option 1 or 2, the employee contributions due on termination pay will not be tax-deferred and Federal, Montana State, and Social Security taxes must be withheld from the gross amount of termination pay received. You must pay the net amount of the termination pay to the TRS employee and advise the employee that they must remit the TRS employee contributions due the TRS by personal check. In addition, the employee contributions due on termination pay may be limited under IRC Section 415 (c).

The "Termination Pay Form" is to be retained in your office until the TRS employee has been fully terminated, all wages have been paid, and the termination pay amount has been determined. Please attach this "Termination Pay Form" to your monthly report with which you submit the employee and/or employer contributions due the TRS.

Termination pay must be paid at the time of termination and retirement to be included in the calculation of benefits. If termination pay is paid to the retiring TRS member within 60 days of termination, it will be considered paid at the time of termination. The TRS employer is responsible for correctly reporting termination pay to the TRS, withholding employee contributions if the 'Termination Pay – Irrevocable Election Form' is in place, and reporting the correct amount on the member's Form W-2. If the employer is withholding the employee's termination pay contributions as tax-deferred, both the employee and employer contributions due the TRS must be remitted with the employer's regular monthly contribution report.



## MONTANA TEACHERS' RETIREMENT SYSTEM

1500 E 6TH AVE  
PO BOX 200139  
HELENA MT 59620-0139  
(406) 444-3134

### TERMINATION PAY – IRREVOCABLE ELECTION

**TRS Office Use Only**

A Montana Teachers' Retirement System (TRS) member, pursuant to 19-20-716 MCA, is permitted to pay additional employee contributions to the TRS in order to include termination pay in the calculation of their monthly benefit. Pursuant to the provisions of 19-20-716, the employee contribution due the TRS may be deducted from the termination pay and remitted to the TRS on a tax-deferred basis. I understand that tax-deferral of the employee contributions due to the TRS on termination pay requires execution of this irrevocable payroll reduction authorization. If this form is properly executed, the employer is required to pick-up and remit the employee contribution due the TRS from my termination pay. With respect to this reduction, I understand the following:

- This is an irrevocable reduction authorization. The statute governing this option, 19-20-716 MCA, requires that I use **"the total"** termination pay amount available at the time of termination and retirement in the calculation of average final compensation.
- The binding irrevocable election form is not effective until signed by myself, as the TRS member, and an authorized representative of my employer.
- The pick-up is only effective if the irrevocable election form is executed at least **90 days** prior to my final day of employment.
- Contributions due TRS must be deducted from the gross amount of my termination pay, paid at the time of my termination and retirement. Amounts paid prior to termination or months after termination cannot be reported to TRS.
- The contributions picked up by my employer may not exceed the otherwise taxable portion of my termination pay.
- Termination pay does not include payments that are considered deferred compensation. The most common type of deferred compensation is the option to take cash or have the amount payable applied toward future insurance premiums. Even if the member elects to take the cash, it is not reportable as termination pay to the TRS. The employer may be required to offer assurances in this regard.
- After the execution of this Termination Pay – Irrevocable Election Form, I do not have the option of receiving the picked up amounts (employee contributions) directly instead of having them paid by my Employer to TRS.
- Employee contributions deducted from termination pay must be paid from the same source as compensation is paid.
- I understand that employee contributions are being picked up by my employer and must be remitted directly to the TRS in lieu of the employee contributions being paid by me.
- I understand that if employee contributions due exceed the available funds after social security taxes have been deducted from the gross amount of the termination pay, that I will be required to make personal payment of any balance due.
- Any portion of my termination pay that is required to be contributed by my employer to a Voluntary Employee Benefit Association (VEBA) will reduce the maximum amount of termination pay that can be reported to TRS.
- If I die prior to termination of employment, this binding, irrevocable election shall be carried out in accordance with the executed Termination Pay - Irrevocable Election Form. If the termination pay is not payable upon my death, the election is void.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT OF 1992  
ALTERNATIVE ACCESSIBLE FORMATS OF THIS DOCUMENT WILL BE PROVIDED UPON REQUEST

TRS Form 129

Rev 10/04



**MONTANA  
TEACHERS' RETIREMENT SYSTEM**

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HELENA MT 59620-0139  
(406) 444-3134

**TRS Office Use Only**

**TERMINATION PAY - IRREVOCABLE ELECTION FORM**

(PLEASE TYPE OR PRINT LEGIBLY IN DARK INK.)

**Member's Information:**

Joan P Doe

(Name)

01-04-48

(Date of Birth)

1	1	1	1	1	1	1	1	1
---	---	---	---	---	---	---	---	---

(Social Security Number)

1111 S Freedom Way

(Home Mailing Address Street or PO Box)

Helena MT 59601

(City, State & Zip Code)

(406) 111-2222

(Area Code & Telephone Number)

I hereby elect to use termination pay in the calculation of average final compensation in compliance with option:

**Initial one option**

<b>OPTION 1</b>	Use the total termination pay in the calculation of the average final compensation. My employer and I shall pay such contributions to the retirement system as are determined by the Retirement Board to adequately compensate the System for the additional retirement benefit.	jpd
<b>OPTION 2</b>	The termination pay is divided by the total number of years of creditable service to determine a yearly amount. The yearly amount of termination pay is then added to each of the three consecutive year's salary used in the calculation of the "Average Final Compensation." My employer and I must pay the normal contribution rates on the termination pay.	

I hereby direct my employer, at the time of my termination and retirement, to deduct from my termination pay paid at the time of termination and retirement the contributions due the Montana Teachers' Retirement System to effectuate my election with regard to the use of termination pay in the calculation of my benefit from the TRS. By signing below I acknowledge that I am entering into an irrevocable contract and understand the terms of both sides of this form.

*Joan P Doe*

(Signature of Applicant)

11-10-04

(Date)

**EMPLOYER SIGNATURE**

Signature of Authorized Representative or Employer <i>Authorized Representative</i>	Date 11-4-04
Name of Employer's Authorized Representative (Print or Type) Authorized Representative	Title of Authorized Representative Business Officer
Name of School District or Unit of the University System Helena Public Schools	TRS Employer Number 250011
Employer's Mailing Address 55 S Rodney . Helena MT 59604	Employer's Telephone Number (406) 324-2000

**Distribution:** Mail Original "Termination Pay – Irrevocable Election Form" to the TRS  
Photocopy Retained by the Employer  
Photocopy Provided to the Employee

## CALCULATION OF TERMINATION PAY CONTRIBUTIONS

### OPTION 1 - EXAMPLE

The member elects to use the gross amount of their termination pay in the calculation of AFC. The calculation of the TRS employee and employer contributions due are based on the member's age and total years of creditable service at the time of their retirement. The member's age is rounded to the nearest whole year. For example, if their age is 48 years, 6 months and 0 days, use the rate for age 48. If their age is 48 years, 6 months and 1 day, use the rates for age 49. (See the 'Termination Pay Contribution Rates' for the contribution rate based on the members' age at the time of their retirement). If the member has selected Option 1, you must contact the TRS for verification of their correct creditable service.

**Example:** A TRS member at age 49 with 28.00 years of service receiving \$5,000.00 in termination pay could increase their benefit \$64.81 per month by electing Option 1. The employee and employer cost would be calculated as follows:

$$\begin{array}{rclclcl} \frac{\$ 5,000.00}{\text{Termination Pay}} & \times & \frac{3.74 \%}{\text{Employee Rate}} & \times & \frac{28.00}{\text{Years of Service}} & = & \frac{\$ 5,236.00}{\text{Employee Cost}} \\ \\ \frac{\$ 5,000.00}{\text{Termination Pay}} & \times & \frac{3.96 \%}{\text{Employer Rate}} & \times & \frac{28.00}{\text{Years of Service}} & = & \frac{\$ 5,544.00}{\text{Employer Cost}} \end{array}$$

### OPTION 2 - EXAMPLE

The member elects to use a yearly amount of termination pay in the calculation of AFC. The employee contribution due the TRS is based on the TRS employee contribution rate in affect at the time of retirement (7.150%). The employer contribution due the TRS is based on the TRS employer rate in effect at the time of calculation (7.470%).

**Example:** A member who has \$5,000.00 in termination pay and 28.00 years of service could increase their monthly benefit by \$6.94 by electing Option 2. This calculation is determined by dividing the termination pay (\$5,000.00) by the member's years of service (28.00), which would add \$178.58 to each of the three salaries used in the calculation of AFC. The TRS member and employer contributions due are calculated as follows:

$$\begin{array}{rclcl} \frac{\$ 5,000.00}{\text{Termination Pay}} & \times & \frac{7.150 \%}{\text{Employee Rate}} & = & \frac{\$ 357.50}{\text{Member Cost}} \\ \\ \frac{\$ 5,000.00}{\text{Termination Pay}} & \times & \frac{7.470 \%}{\text{Employer Rate}} & = & \frac{\$ 373.50}{\text{Employer Cost}} \end{array}$$

### OPTION 3 - EXAMPLE

Selection of this option requires no calculation and no contributions are due from the employee or their employer. Reporting Option 3 may seem inconsequential; however, this protects the employer from later claims that the member was not advised they could have selected an option. It also protects the member in the event additional contributions are withheld. If the member elects Option 3, the TRS member must complete Part 1 of the 'Termination Pay Form' and the employer must complete Part 2 and send the properly completed form to the TRS.

## TERMINATION PAY CONTRIBUTION RATES

<b>Retirement Age</b>	<b>Employee Rate</b>	<b>Employer Rate</b>	<b>Total Percent of Termination Pay</b>
45	4.00%	4.18%	8.18%
46	3.97%	4.14%	8.11%
47	3.94%	4.11%	8.05%
48	3.90%	4.08%	7.98%
49	3.87%	4.04%	7.91%
50	3.83%	4.00%	7.83%
51	3.80%	3.96%	7.76%
52	3.75%	3.92%	7.67%
53	3.71%	3.88%	7.59%
54	3.67%	3.83%	7.50%
55	3.62%	3.78%	7.40%
56	3.57%	3.73%	7.30%
57	3.52%	3.68%	7.20%
58	3.47%	3.62%	7.09%
59	3.41%	3.57%	6.98%
60	3.36%	3.51%	6.87%
61	3.30%	3.45%	6.75%
62	3.24%	3.39%	6.63%
63	3.18%	3.33%	6.51%
64	3.12%	3.26%	6.38%
65	3.06%	3.19%	6.25%
66	2.99%	3.12%	6.11%
67	2.92%	3.06%	5.98%
68	2.86%	2.98%	5.84%
69	2.79%	2.91%	5.70%
70	2.72%	2.84%	5.56%
71	2.65%	2.77%	5.42%
72	2.58%	2.69%	5.27%
73	2.50%	2.62%	5.12%
74	2.43%	2.53%	4.96%
75	2.35%	2.46%	4.81%
76	2.27%	2.38%	4.65%
77	2.20%	2.29%	4.49%
78	2.12%	2.21%	4.33%
79	2.03%	2.13%	4.16%
80	1.96%	2.04%	4.00%
81	1.88%	1.96%	3.84%
82	1.80%	1.88%	3.68%
83	1.72%	1.80%	3.52%
84	1.64%	1.72%	3.36%
85	1.57%	1.64%	3.21%
86	1.50%	1.56%	3.06%



## TERMINATION PAY FORM INSTRUCTIONS

A TRS member, who terminates their employment for the purpose of retiring and is eligible for a payout of an amount that meets the definition of termination pay must fill out a 'Termination Pay Form'. The TRS will include a 'Termination Pay Form', in each retiring member's retirement application materials. The TRS member is instructed to complete Part I of the 'Termination Pay Form' and forward that form to their employer. The 'Termination Pay Form' must be retained in your office until the TRS member has been fully terminated, all wages have been paid, and the termination pay amount has been determined.

The TRS member must properly complete Part I of the 'Termination Pay Form'. The member must initial Option 1, 2, or 3. The following is an example of a properly completed Part I of the 'Termination Pay Form'.

<b>I. THE FOLLOWING TO BE COMPLETED BY THE EMPLOYEE</b>		
I hereby elect to use my termination pay by the following option: (Initial one) OPTION 1 <u>JS</u> OPTION 2 <u>    </u> OPTION 3 <u>    </u>		
I have signed a Termination Pay-Irrevocable Election Form, at least 90 days prior to my termination of employment, indicating my desire to remit contributions due on termination pay as tax deferred. (Initial one) YES <u>X</u> NO <u>    </u>		
<u>Jane Smith</u> SIGNATURE	<u>123-45-6789</u> SOCIAL SECURITY NUMBER	<u>May 5, 2002</u> DATE
<u>Jane Smith</u> NAME (PLEASE PRINT)	<u>(406) 555-1212</u> TELEPHONE NUMBER	

The 'Termination Pay Form' is to be retained in your office until the member has been fully terminated, all wages have been paid, and the termination pay amount has been determined.

The employer must properly complete Part II of the 'Termination Pay Form' once the member has been fully terminated, all wages have been paid, and the termination pay amount has been determined. The following is an example of a properly completed Part II of the 'Termination Pay Form'.

<b>II. THE FOLLOWING MUST BE COMPLETED BY THE EMPLOYER, Regardless of the Option Selected: (Please Print)</b>			
I certify that the above named individual will receive the following termination payment during the fiscal year, and contributions will be withheld on this compensation and properly reported to the Teachers' Retirement System as required in accordance with the above option elected. I also certify that the termination pay amount does not include deferred compensation under Internal Revenue Code 457 (f).			
Date of Termination	<u>June 5, 2002</u>	Termination Pay Amount	\$ <u>5,000.00</u>
Employee contributions due on termination pay will be remitted as tax-deferred. (Circle One) <u>YES</u> NO			
<u>Janet Cooper</u> SIGNED NAME	<u>Janet Cooper</u> PRINTED NAME		
<u>District Clerk</u> TITLE	<u>123456</u> TRS EMPLOYER #	<u>June 15, 2002</u> DATE	<u>(406) 444-3134</u> PHONE NUMBER
<b>PLEASE VERIFY FISCAL YEAR WAGES AS FOLLOWS:</b> (Do not include Termination Pay Amount)			
Base Contract Amount	\$ <u>35,000.00</u>	Other Compensation/Extra Duty	\$ <u>2,000.00</u>
Explanation of other Compensation/Extra Duty: <u>Basketball Coach \$1,500.00 and Drivers' Education \$500.00</u>			

## TERMINATION PAY FORM INSTRUCTIONS, Cont.

The employer must properly complete **Part III** of the 'Termination Pay Form' once the TRS member has been fully terminated, all wages have been paid, and the termination pay amount has been determined to calculate the member and employer contributions due the TRS under Option 1 or Option 2, if applicable. In addition, the TRS requires a breakdown of the tax-deferred contributions being remitted by the employer as well as any taxed contributions (personal payment) to be remitted by the TRS member.

In Part III of the 'Termination Pay Form' the 'Termination Pay' amount represents the gross amount a TRS member will receive at the time of retirement or death that meets the definition of termination pay.

The '%' is the contribution rate based on the TRS member's age as of their retirement effective date (the first of the month following their termination date). The TRS member's age is rounded to the nearest whole year, e.g. if the member's age is 48 years, 6 months and 0 days, use the rate for age 48. If the member's age is 48 years, 6 months and 1 day, use the rates for age 49. If rates are needed for ages not shown on the 'Termination Pay Contribution Rates Table', please contact the TRS at (406) 444-3324 or (406) 444-4113. (Use the 'Termination Pay Contribution Rates' (Page 8) to calculate the employee and employer contributions due the TRS).

If the TRS member has elected Option 1, you will need to contact the TRS to obtain verification of the member's correct 'Age' and 'Creditable Service' at the time of retirement, based on current information. This information will be used in calculating the amount the employee and the employer must contribute to the TRS on the termination pay. NOTE: A TRS member may elect to purchase service after you receive the service credit information from the TRS.

The 'Contribution Due' represents the amount of the employee and the employer contributions due to the TRS, not the gross termination pay amount. It is the employer's responsibility to ensure that the employee and employer contributions are correctly withheld and reported to the TRS.

The following is an example of Part III of the 'Termination Pay Form' properly completed, with the assumption that the TRS member and the employer have signed the 'Termination Pay – Irrevocable Election Form' 90 days prior to the member's date of termination, and the member elected Termination Pay - Option 1.

<b>III. CALCULATION OF CONTRIBUTIONS DUE ON TERMINATION PAY:</b>					
<b>OPTION 1</b>					
<b>(A) MEMBER CONTRIBUTIONS</b>		<b>Member's Age at Retirement <u>49</u></b> (NOTE: See "Special Instructions" on reverse side)			
\$ <u>5,000.00</u>	X	<u>3.74</u> %	X	<u>28.00</u>	= \$ <u>5,236.00</u>
Termination Pay		See Table		Creditable Service	Contribution Due
Amount of The Member Contributions Due To Be Remitted by Employer As Tax-Deferred					\$ <u>4,600.00</u>
Amount of Member Contributions Due To Be Remitted by Employee by Personal Payment					\$ <u>636.00</u>
<b>(A) EMPLOYER CONTRIBUTIONS (NOTE: See "Special Instructions" on reverse side)</b>					
\$ <u>5,000.00</u>	X	<u>3.96</u> %	X	<u>28.00</u>	= \$ <u>5,544.00</u>
Termination Pay		See Table		Creditable Service	Contribution Due
<b>OPTION 2</b>					
(A) MEMBER CONTRIBUTION RATE	7.150%	X	\$ _____	=	\$ _____
Amount of The Member Contributions Due To Be Remitted by Employer As Tax-Deferred					\$ _____
Amount of Member Contributions Due To Be Remitted by Personal Payment					\$ _____
(B) EMPLOYER CONTRIBUTION RATE	7.470%	X	\$ _____	=	\$ _____

The completed 'Termination Pay Form' must accompany the monthly report with which the member and employer contributions due the TRS will be submitted.



**MONTANA  
TEACHERS' RETIREMENT SYSTEM**

1500 E 6TH AVE  
PO BOX 200139  
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**TRS Office Use Only**

**TERMINATION PAY**

PLEASE REVIEW INSTRUCTIONS ON REVERSE SIDE  
(PLEASE TYPE OR PRINT LEGIBLY IN DARK INK.)

**I. THE FOLLOWING IS TO BE COMPLETED BY THE EMPLOYEE:**

Joan P Doe

(Name)

01-01-48

(Date of Birth)

1 1 1 1 1 1 1 1 1 1

(Social Security Number)

1111 S Freedom St

(Home Mailing Address)

Helena MT 59601

(City, State & Zip Code)

(406) 111-2222

(Area Code & Telephone Number)

I hereby elect the following termination pay option (Initial only one): **OPTION 1** JPD **OPTION 2** \_\_\_\_\_ **OPTION 3** \_\_\_\_\_

I have signed a "Termination Pay - Irrevocable Election Form", at least 90 days prior to my termination of employment, indicating my desire to remit contributions due on termination pay as tax deferred (Initial only one) YES X NO \_\_\_\_\_

*Joan P Doe*

11-10-04

(Signature)

(Date)

**II. THE FOLLOWING MUST BE COMPLETED BY THE EMPLOYER:**

Date of Termination 06-15-05 Termination Pay Amount \$5,000.00

Will employee contributions due on termination pay be remitted as tax-deferred. (Circle Only One) YES or NO

Please verify the following: (Do not include Termination Pay Amount)

Base Contract Amount \$ 35,000 Other Compensation \$ 2,000.00 Explanation: Basketball Coach \$1,500 and Driver's Ed \$500

I certify that the above named individual has terminated their employment and will receive the following termination payment upon their termination and contributions will be withheld on this amount and reported to the Teachers' Retirement System, if applicable. I understand the member must make personal payment for the employee contributions due if a valid Termination Pay - Irrevocable Election Form has not been signed. I also certify that the termination pay

Authorized Representative

11-04-04

(Signature)

(Date)

District Clerk

(Printed Name & Title)

120011

(TRS Employer Number)

(406) 235-2000

(Area Code & Telephone Number)

**III. CALCULATION OF CONTRIBUTIONS DUE ON TERMINATION PAY:**

**OPTION 1: (A) EMPLOYEE CONTRIBUTIONS**

Employee's Age at Retirement 49

\$ 5,000.00 X 3.74 % X 28.00 = \$ 5,236.00  
Termination Pay See Termination Pay Contribution Rate Table Creditable Service Contribution Due

Amount of Employee Contributions Due To Be Remitted By Employer - Tax-Deferred \$ 4,600.00

Amount of Employee Contributions Due To Be Remitted by Member - Personal Payment \$ 636.00

**(B) EMPLOYER CONTRIBUTIONS**

\$ 5,000.00 X 3.96 % X 28.00 = \$ 5,544.00  
Termination Pay See Termination Pay Contribution Rate Table Creditable Service Contribution Due

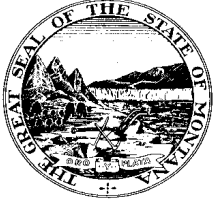
**OPTION 2: (A) EMPLOYEE CONTRIBUTION RATE** 7.150% X \$ \_\_\_\_\_ = \$ \_\_\_\_\_

Amount of Employee Contributions Due To Be Remitted By Employer - Tax-Deferred \$ \_\_\_\_\_

Amount of Employee Contributions Due To Be Remitted By Employee - Personal Payment \$ \_\_\_\_\_

**(B) EMPLOYER CONTRIBUTION RATE** 7.470% X \$ \_\_\_\_\_ = \$ \_\_\_\_\_

The employee and employer contributions due on termination pay **must** be remitted by the 15th of the month following termination. The completed termination pay form **must** accompany the monthly report with which you submit the employee and employer contributions due. If the contributions due are not submitted in a timely manner, interest will be assessed.



**MONTANA  
TEACHERS' RETIREMENT SYSTEM**

1500 E 6TH AVE  
PO BOX 200139  
HELENA MT 59620-0139  
(406) 444-3134

**TRS Office Use Only**

**TERMINATION PAY**

PLEASE REVIEW INSTRUCTIONS ON REVERSE SIDE  
(PLEASE TYPE OR PRINT LEGIBLY IN DARK INK.)

**I. THE FOLLOWING IS TO BE COMPLETED BY THE EMPLOYEE:**

Joan P Doe

(Name)

01-01-48

(Date of Birth)

1 1 1 1 1 1 1 1

(Social Security Number)

1111 S Freedom St

(Home Mailing Address)

Helena MT 59601

(City, State & Zip Code)

(406) 111-2222

(Area Code & Telephone Number)

I hereby elect the following termination pay option (Initial only one): **OPTION 1** \_\_\_\_\_ **OPTION 2** JPD **OPTION 3** \_\_\_\_\_

I have signed a "Termination Pay - Irrevocable Election Form", at least 90 days prior to my termination of employment, indicating my desire to remit contributions due on termination pay as tax deferred (Initial only one) YES X NO \_\_\_\_\_

Joan P Doe

11-10-04

(Signature)

(Date)

**II. THE FOLLOWING MUST BE COMPLETED BY THE EMPLOYER:**

Date of Termination 06-15-05 Termination Pay Amount \$5,000.00

Will employee contributions due on termination pay be remitted as tax-deferred. (Circle Only One) YES or NO

Please verify the following: (Do not include Termination Pay Amount)

Base Contract Amount \$ 35,000 Other Compensation \$ 2,000.00 Explanation: Basketball Coach \$1,500 and Driver's Ed \$500

I certify that the above named individual has terminated their employment and will receive the following termination payment upon their termination and contributions will be withheld on this amount and reported to the Teachers' Retirement System, if applicable. I understand the member must make personal payment for the employee contributions due if a valid Termination Pay - Irrevocable Election Form has not been signed. I also certify that the termination pay

Authorized Representative

11-04-04

(Signature)

(Date)

District Clerk

(Printed Name & Title)

120011

(TRS Employer Number)

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(Area Code & Telephone Number)

**III. CALCULATION OF CONTRIBUTIONS DUE ON TERMINATION PAY:**

**OPTION 1: (A) EMPLOYEE CONTRIBUTIONS**

Employee's Age at Retirement \_\_\_\_\_

\$ \_\_\_\_\_ X \_\_\_\_\_ % X \_\_\_\_\_ = \$ \_\_\_\_\_  
Termination Pay See Termination Pay Contribution Rate Table Creditable Service Contribution Due

Amount of Employee Contributions Due To Be Remitted By Employer - Tax-Deferred \$ \_\_\_\_\_

Amount of Employee Contributions Due To Be Remitted by Member - Personal Payment \$ \_\_\_\_\_

**(B) EMPLOYER CONTRIBUTIONS**

\$ \_\_\_\_\_ X \_\_\_\_\_ % X \_\_\_\_\_ = \$ \_\_\_\_\_  
Termination Pay See Termination Pay Contribution Rate Table Creditable Service Contribution Due

**OPTION 2: (A) EMPLOYEE CONTRIBUTION RATE** 7.150% X \$ 5,000.00 = \$ 357.50

Amount of Employee Contributions Due To Be Remitted By Employer - Tax-Deferred \$ \_\_\_\_\_

Amount of Employee Contributions Due To Be Remitted By Employer - Personal Payment \$ \_\_\_\_\_

(B) **EMPLOYER CONTRIBUTION RATE** 7.470% X \$ 5,000.00 = \$ 373.50

The employee and employer contributions due on termination pay **must** be remitted by the 15th of the month following termination. The completed termination pay form **must** accompany the monthly report with which you submit the employee and employer contributions due. If the contributions due are not submitted in a timely manner, interest will be assessed.

## REPORTING TERMINATION PAY CONTRIBUTIONS

A properly completed and signed 'Termination Pay Form' together with the TRS employee and TRS employer contributions due, **must** be received by the TRS no later than the 15th of the month following the month in which the member terminated employment. For example, if an employee terminates employment in June, contributions on termination pay are due by July 15th. This date coincides with the date the June TRS 'Monthly Earnings and Contributions Report' is due.

On the monthly contribution report, list the contributions due on termination pay under the 'Term Pay Contribution' column. You must also indicate the termination pay option selected (1 or 2) under the 'Option' column. Do not include the gross amount of the termination pay in the monthly earnings.

If the TRS member has signed a "Termination Pay - Irrevocable Election Form" and elected termination pay Option 1 or 2, the gross amount of their termination pay will be subject to Social Security withholding, however Federal and Montana State income taxes will not be withheld from the employee contributions deducted from their termination pay and reported to the TRS. The employee may not change their termination pay option election if a "Termination Pay – Irrevocable Election Form" has been properly executed.

**SPECIAL INSTRUCTIONS:** If the "Termination Pay – Irrevocable Election Form" has been signed and the employee contributions due exceed the net after Social Security is deducted, the amount that exceeds the net must be paid by the employee's personal check to the TRS. The tax-deferred portion must be reported on the monthly report (picked-up) by the employer. Deferred compensation as defined under Internal Revenue Code 457 (f) is not termination pay and is not reportable.

The following example provides a breakdown of the termination pay relative to an estimated Social Security deduction and the proper remittance of the contributions to the TRS. Please note: the employer is responsible for determining and withholding the proper Social Security deductions.

Gross Amount of Termination Pay	\$5,000.00	
Estimated Social Security deductions	- 400.00	
Net Amount of Termination Pay	\$4,600.00	(Maximum That Can Be Tax-Deferred)
Employee Contributions Due the TRS	\$5,236.00	
Tax-Deferred Amount	- \$4,600.00	
Employee's Out of Pocket Expense	\$ 636.00	(Personal Check - Payable to the TRS)

A TRS member who does not properly execute the 'Termination Pay – Irrevocable Election Form', 90 days prior to their date of termination, may still select termination pay Option 1 or 2. However, the TRS employee contributions due on termination pay will not be tax-deferred. The Federal, Montana State and Social Security taxes must be withheld from the gross amount of their termination pay. The TRS employee is required to pay their contributions due the TRS by personal check. In addition, Section 415(c) of the IRC limits the amount of contributions that a TRS member may make to a "Defined Benefit Plan" with after tax dollars. Please contact the TRS for additional information regarding IRC 415(c) limits.

If the termination pay contributions are not received, it will be necessary to charge interest on the contributions at the actuarial assumed rate of 8%. The TRS member and the employer will be notified, in writing, when contributions due on termination pay are past due. If contributions on termination pay are not received, monthly benefits calculated using termination pay will be recalculated and adjusted retroactive to the date of retirement.